Irish Life

Life | Pensions | **Investments**

February 2023 in review
Summit Mutual Funds

Helping people build better futures

MARKET REVIEW

In February, falling US fourth quarter earnings and weak guidance helped push equities lower amid more persistent inflation than expected and strong economic data. The market has interpreted this data as likely to usher in higher rates for longer in the US, which weighed on bond prices as well as equities. The economic data was supportive of the US dollar, which strengthened on higher rate expectations, while commodities (priced in dollars) declined. In Europe, despite falling headline inflation, the European Central Bank (ECB) maintained its inflation-fighting rhetoric amid sticky core inflation. Meanwhile, UK-EU relations thawed as an agreement was reached on the Northern Ireland protocol. In Japan, Ueda was picked to be the next Bank of Japan Governor and is viewed as being a continuity candidate.

MARKET ROUND-UP

Equities

Global stock markets gave back some of their year-to-date gains in February, with the prospect of higher central bank rates weighing on sentiment. World equities fell by -1.9% (-0.5% in euro terms) in February.

In the US, the MSCI USA ended the month down by -2.4% (flat in euro terms), as fourth quarter company earnings were weak. Nearly all companies (98%) in the S&P 500 had reported by the end of February, with earnings down 2% year-on-year.

European equities, despite falling towards the end of the month, gained in February. China's reopening and a weaker euro aided exporters while natural gas prices fell by nearly -18%, contributing towards Europe ex-UK equities' gain of +1.3% for the month.

Bonds

The prospect of interest rates that are 'higher for longer' pushed bond yields higher in February. Government bond yields rose significantly in the US and the eurozone. US 10-year Treasury yields ended February at 3.92% (compared to 3.51% a month earlier), while the equivalent for German bunds was at 2.65% (against 2.29% at the end of January). The rebound in yields pushed the ICE BofA 5Y+ Euro Government index lower by -3.3% in February.

There was an upward re-pricing of the expected terminal (or peak) interest rate in the US and eurozone. ECB Governing Council member speeches were deemed to be aggressively anti-inflation in February, suggesting higher terminal rates may yet be targeted. At the end of the of the month, rate markets were expecting a peak US federal funds rate of 5.4% by July, up from 4.9% at the end of January and compared to the current 4.5-4.75% range. For the ECB, markets project a terminal rate of 3.9% to be reached in December, compared to 3.4% a month ago and the current 2.5%.

Currencies and commodities

The US dollar rallied in February as economic data releases outperformed those of the likes of Europe. The euro against the dollar ended February at 1.0606, down from 1.0865 at the end of January, with the Dollar index (DXY) rising by 2.7% over the period. For commodity prices, tighter monetary policy and a stronger US dollar were headwinds, contrasting with tailwinds such as China's reopening. For the month, commodities were down by -3.8% (-1.5% in euro terms), with Brent crude oil down by -0.7% and copper down by -3.0%.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	MTD Return (%)	YTD Return (%)	2022 Return (%)
MSCI Ireland	4.3	16.0	-21.1
MSCI United Kingdom	2.7	7.5	1.4
MSCI Europe ex UK	1.5	9.1	-11.9
MSCI North America	-0.1	4.7	-13.8
MSCI Japan	-1.5	2.8	-10.8
MSCI EM (Emerging Markets)	-4.2	1.6	-14.5
MSCI AC World	-0.5	4.8	-12.6
10-Year Yields	**Yield Last Month (%)**	**2022 Yield (%)**	**2021 Yield (%)**
US	3.92	3.87	1.51
Germany	2.65	2.57	-0.18
UK	3.83	3.67	0.97
Japan	0.51	0.42	0.07
Ireland	3.13	3.13	0.24
Italy	4.47	4.70	1.17
Greece	4.44	4.62	1.34
Portugal	3.51	3.59	0.47
Spain	3.60	3.66	0.57
FX Rates	**End last month**	**2022 Rates**	**2021 Rates**
U.S. Dollar per Euro	1.06	1.07	1.14
British Pounds per Euro	0.88	0.89	0.84
U.S. Dollar per British Pounds	1.21	1.21	1.35
Commodities (USD)	**MTD Return (%)**	**YTD Return (%)**	**2022 Return (%)**
Oil (Brent)	-0.7	-4.0	6.7
Gold (Oz)	-5.2	0.3	-0.3
S&P Goldman Sachs Commodity Index	-3.8	-3.9	26.0

Source: ILIM, Bloomberg. Data is accurate as at 1 March 2023.

MARKET OUTLOOK

Irish Life Investment Managers' (ILIM's) view – looking ahead

The direction of growth, inflation and monetary policy are set to remain key for global equities. January's euphoria gave way to a more sombre February. Now, global stock markets appear to be at a crossroads: they could either climb a wall of worry or fall to reflect a less favourable outlook. Although the outcomes are unlikely to be so binary, in our view, there is certainly room for equity markets to price in a downside economic scenario. Indeed, negative company guidance and continued price pressures, from input costs to wage growth, speak to the potential for further margin compression and could easily tip into a more severe economic slowdown or recession. However, market performance has thus far been in line with that of a 'soft landing' (i.e. slowdown, but no recession). There have also been some powerful supports, including China's reopening.

At the same time, economic data, including February PMIs, have shown strength, but the implication here is that central banks are further away from peak rates than previously assumed. Should animal spirits be revived amid still high inflation, then it is likely that central banks will have to double down on their aggressive policies. Indeed, this partly drove some of the market moves in February as central banks' terminal (peak) rates were repriced upwards. Communications from the likes of the Fed and the ECB have remained aggressive with their inflation-fighting rhetoric, with the latter seemingly more so than in late 2022. If central banks do tighten more aggressively than was assumed, equity markets are vulnerable to further downside from here.

Current valuations in the US do not look particularly attractive in this context: the 12-month forward P/E for the S&P 500 is 17.7x against a long-term average of 16.5x. Global equities trade at a multiple of 15.3x against a long-term average of 16.0x, offering better value. On balance, we believe there could be a better entry point for equities later this year.

Outlook dependent on economic and earnings growth. Uncertainty on growth due to policy tightening, squeeze on real incomes, weaker business and consumer sentiment.

Global growth slowed to an estimated 3.0% in 2022. Growth is forecast to slow further to 2.3% in 2023 with slower growth in DM and an improvement in EM as China reopens. Recession fears have eased as economic releases have improved, although tighter monetary policy for longer still poses risks.

Russia/Ukraine, monetary policy tightening, fiscal stimulus, inflation developments, energy prices, supply chain issues and China reopening will all be key for growth.

Equity valuations in absolute terms have fallen below long-term averages although when more realistic earnings growth assumptions are used, they are higher than the long-term average of 16.0x. Equities' relative undervaluation against bonds has been removed with the rise in bond yields

Following the downgrades to growth forecasts, expected downward revisions to earnings and the rise in bond yields YTD, equity markets are still vulnerable to short-term downside before finding a trough and potentially recovering in H2.

Volatility is likely to remain a feature due to uncertainty over impact of Russia/Ukraine crisis, risks around inflation, tighter monetary policy, slower growth and other geopolitical risks.

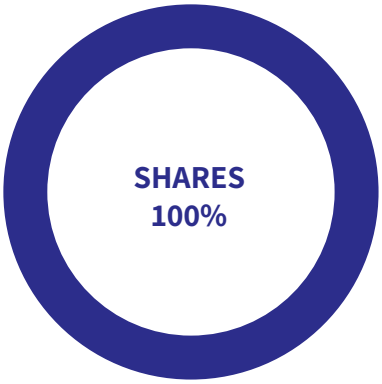
SUMMIT GLOBAL LEADERS FUND

The Summit Global Leaders Fund invests in stocks with large market capitalisations. From July 2014, equity management has been sub-advised to Setanta Asset Management.

Fund update for February

The Summit Global Leaders Fund returned +0.3%, net of fund management fee, over February. Leading performers included electronic vehicle manufacturer Tesla (+18.8% in US$) and semiconductor company NVIDIA (+18.8% in US$). Tesla has enjoyed a strong share price rally following the release of strong Q4 results in January and the suggestion from CEO Elon Musk that sales could reach 2 million units in 2023. Demand for NVIDIA's graphical processing units is expected to benefit significantly from the emergence of generative artificial intelligence systems such as the ChatGPT chatbot. Adobe fell -12.5% (US$) over the period. It was reported that the Justice Department is preparing an antitrust lawsuit to block the company's acquisition of Figma, which could have negative implications for growth. Tencent declined -10.1% (HK$) in the month. There are concerns about the growth prospects for its domestic gaming business, while the cloud and online advertising businesses face increased competition.

Asset allocation

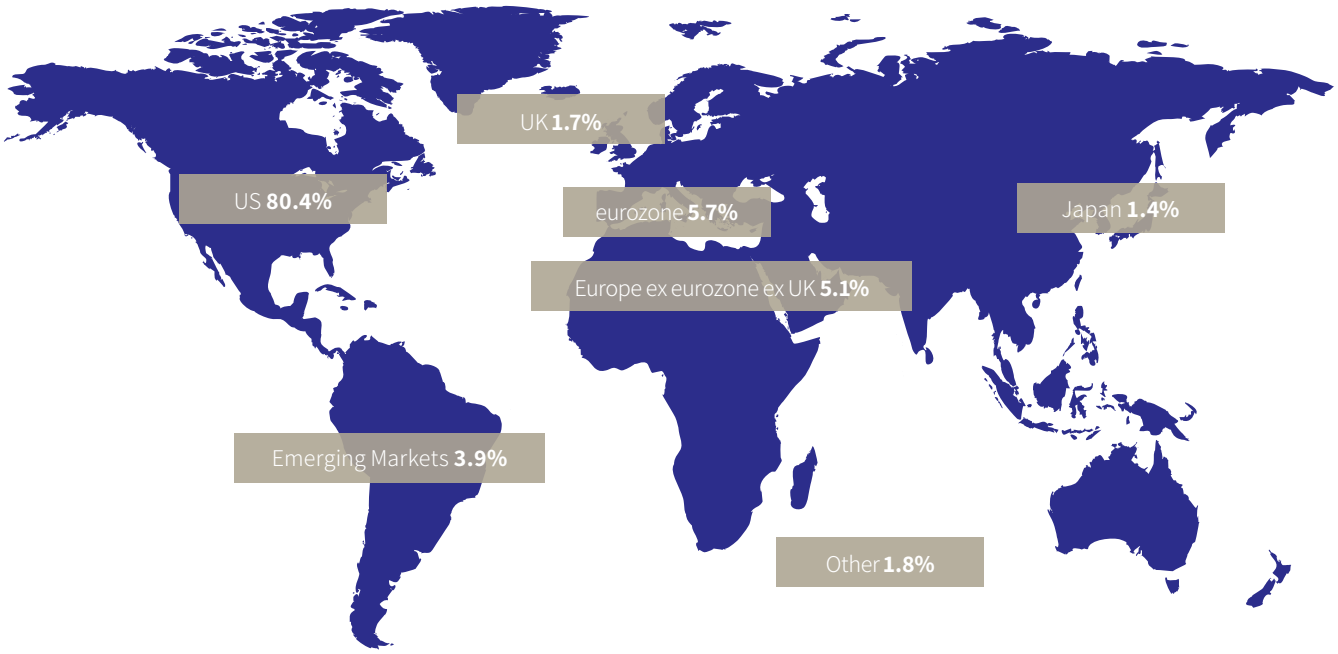


Top Ten Share Holdings

Stock name	% of fund
Apple	8.4
Microsoft	8.1
Alphabet	7.7
Amazon.com	5.5
Nvidia	3.9
Tesla	3.7
Exxon Mobil	3.1
United Health	2.9
Meta Platforms	2.8
JP Morgan Chase	2.8

Source: ILIM, Factset. Data is accurate as at 28 February 2023.

Share regional distribution



Information is correct at 28 February 2023.

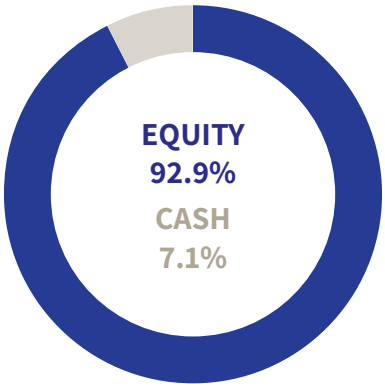
SUMMIT GROWTH FUND

The Summit Growth Fund aims to achieve growth by investing exclusively in global equities. From July 2014, equity management has been sub-advised to Setanta Asset Management. Equities are managed under the Setanta Global Equity Strategy.

Fund update for February

The Summit Growth Fund returned -1.6%, net of fund management fee, over February. From a sector perspective, Consumer Discretionary, Consumer Staples, Industrials and Materials were the best performing sectors. The Energy, Healthcare and Technology sectors lagged over the month. The stocks contributing most to the fund's return were O-I Glass, Booking Holdings, Microsoft and Melrose Industries. The stocks that detracted the most were Keysight Technologies, Johnson Controls, Alphabet and Electronic Arts.

Asset allocation

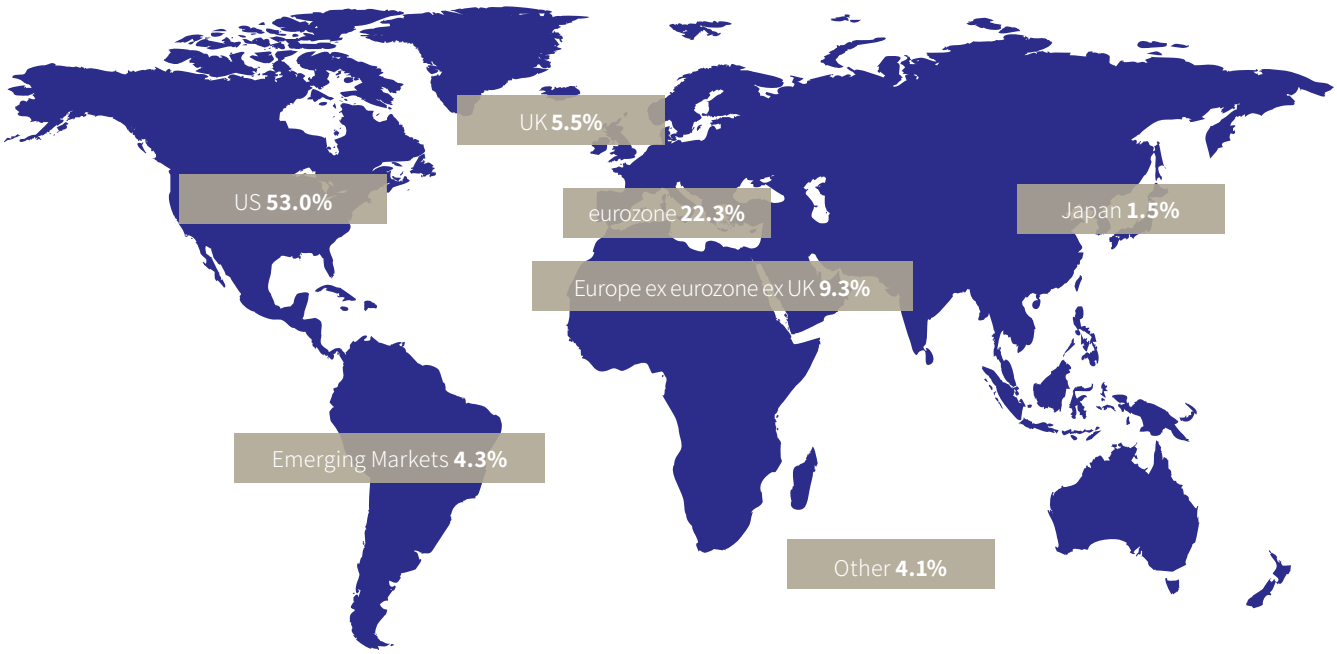


Top Ten Share Holdings

Stock name	% of fund
Microsoft	4.4
Berkshire Hathaway	3.7
Oracle	3.3
McDonald's	2.7
Costco Wholesale	2.7
Booking Holdings	2.6
Nike	2.6
Johnson Controls International	2.4
Johnson & Johnson	2.3
Alphabet	2.3

Source: ILIM, Factset. Data is accurate as at 28 February 2023.

Share regional distribution



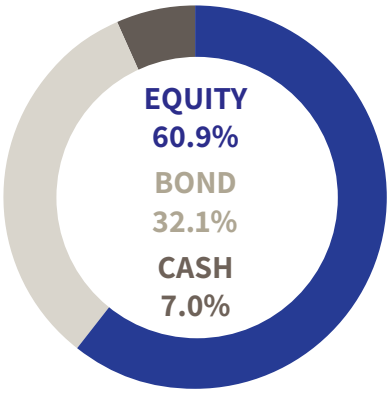
SUMMIT BALANCED FUND

The objective of the Summit Balanced Fund is to avoid excessive volatility, while still providing solid returns over the medium to long term. The fund invests in global equities but also maintains a minimum of 33% invested in a mix of fixed income and cash. From July 2014, equity management has been sub-advised to Setanta Asset Management. Equities are managed under the Setanta Global Equity Strategy.

Fund update for February

The Summit Balanced Fund returned -2.0%, net of fund management fee, over February. From a sector perspective, Consumer Discretionary, Consumer Staples, Industrials and Materials were the best performing sectors. The Energy, Healthcare and Technology sectors lagged over the month. Elevated inflation, strong economic data and more aggressive central banks led markets to price in higher terminal rates in both the US and the eurozone. This weighed on both equities and bonds in February, with the former also hurt by weak corporate guidance during the US fourth quarter earnings season.

Asset allocation

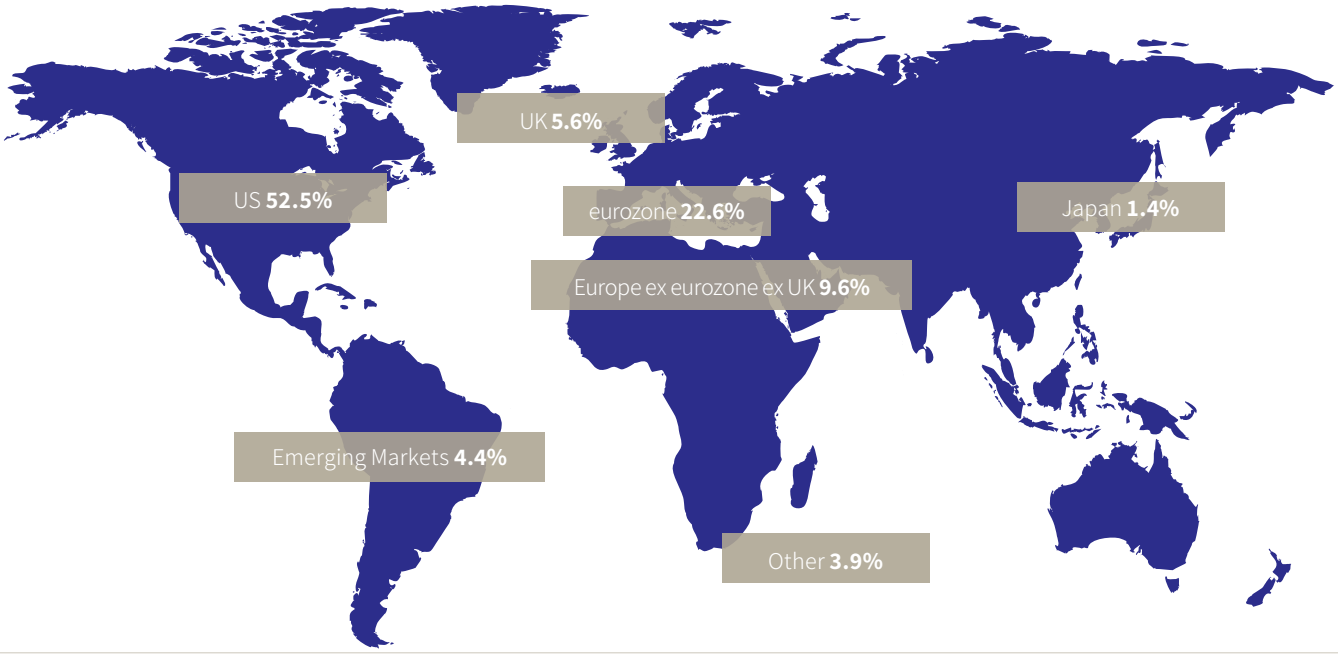


Top Ten Share Holdings

Stock name	% of fund
Microsoft	4.1
Berkshire Hathaway	3.6
Oracle	3.2
Costco Wholesale	2.7
Nike	2.6
McDonald's	2.6
Booking Holdings	2.4
Alphabet	2.4
Samsung	2.3
Johnson Controls International	2.3

Source: ILIM, Factset. Data is accurate as at 28 February 2023.

Share regional distribution



SUMMIT FUND PERFORMANCE

At 28 February 2023

Fund returns after fund management fee	Balanced	Growth	Global Leaders
1 Month	-2.02%	-1.59%	0.28%
QTD	1.42%	2.54%	6.15%
3 Month	-3.92%	-3.10%	-4.04%
YTD	1.42%	2.54%	6.15%
1 Year	-7.43%	-1.82%	-9.85%
2 Years pa	1.32%	8.27%	4.25%
3 Years pa	2.34%	8.48%	8.68%
5 Years pa	2.51%	5.95%	9.77%
10 Years pa	4.97%	8.14%	10.58%

Source: ILIM Performance Team

Warning: If you invest in these funds you may lose some or all of the money you invest.

Warning: These funds may be affected by changes in currency exchange rates.

Warning: The value of your investment may go down as well as up.

Warning: Past performance is not a reliable guide to future performance.

ILIM'S CREDENTIALS

Irish Life Investment Managers (ILIM) is recognised internationally for its expertise, innovation and track record:

European Pensions AWARDS 2019 WINNER Passive Manager of the Year

GRESB ★★★★★ 2022

Irish Pensions AWARDS 2019 WINNER Investment Manager of the Year

Irish Pensions AWARDS 2020 WINNER Investment Manager of the Year

European Pensions AWARDS 2018 WINNER Passive Manager of the Year

KPMG Irish Independent PROPERTY INDUSTRY EXCELLENCE AWARDS 2019 PROPERTY INVESTMENT/

Irish Pensions AWARDS 2021 WINNER Risk Management Provider of the Year

Irish Pensions AWARDS 2022 WINNER Investment Manager of the Year

Summit Mutual Funds plc is managed by Summit Asset Managers Limited. The Investment Manager is Irish Life Investment Managers Limited. Summit Asset Managers Limited and Irish Life Investment Managers Limited are both part of the Great-West Lifeco group of companies, global leaders in financial services.

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